

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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TO: Peabody Retirement Board

FROM: Joseph E. Connarton, Executive Director

RE: Approval of Funding Schedule

DATE: December 9, 2014

This Commission is hereby furnishing you with approval of the revised funding schedule you recently adopted (copy enclosed). The schedule assumes payments are made in quarterly installments each fiscal year. The schedule is effective in FY15 (since the amount under the prior schedule was maintained in FY15) and is acceptable under Chapter 32.

Although we are approving the schedule, we have some concerns regarding the actuarial assumptions. First, we recommended that the Board consider reducing the investment return assumption of 8.25% at the time of the next valuation. Only 8 systems are currently using an investment return assumption above 8.0% (all 8 use 8.25%). As of January 1, 2013, PERAC reduced its “standard” investment return assumption for local system valuations to 7.75%. There are now 72 systems using an assumption less than 8.0% and we expect there will be a few more by the time the 2014 valuations are completed.

Second, the valuation uses a salary increase assumption of 3.0% which is the lowest used by any system. We expect that over the long term this assumption will need to be increased (and/or the investment return assumption decreased) which will increase plan liabilities.

With respect to the amortization schedule of the unfunded liability, we would have preferred a schedule be adopted that more aggressively amortizes the unfunded actuarial liability. For the past year, we have been recommending that systems determine schedules to be fully funded by FY35. This provides more flexibility in the event of a market downturn. We believe this could be accomplished with relatively small increases to current appropriation levels.

The assumptions and schedule should be carefully considered at the time of the next actuarial valuation.

If you have any questions, please contact PERAC's Actuary, Jim Lamenzo, at (617) 666-4446, extension 921.

JEC/jrl

Enc.



H:\Peabody\2014\Peabody14_Val.xlsx]Approp. Results

Appropriation Forecast

| Fiscal Year | Employee Payroll* | Employee Contribution | Employer Normal Cost with Interest | Amortization Payments with Interest | Employer Total Cost with Interest | Employer Total Cost % of Payroll | Funded Ratio %** |
|----------------|----------------------|--------------------------|--|---|---|--|---------------------|
| 2015 | \$40,148,574 | \$3,477,926 | \$1,709,212 | \$8,687,461 | \$10,396,673 | 25.9 | 49.6 |
| 2016 | 41,955,260 | 3,672,976 | 1,744,825 | 9,205,837 | 10,950,662 | 26.1 | 50.9 |
| 2017 | 43,843,247 | 3,878,538 | 1,780,181 | 9,571,901 | 11,352,082 | 25.9 | 52.1 |
| 2018 | 45,816,193 | 4,095,163 | 1,815,187 | 9,952,554 | 11,767,741 | 25.7 | 53.3 |
| 2019 | 47,877,921 | 4,323,430 | 1,849,738 | 10,348,378 | 12,198,116 | 25.5 | 54.7 |
| 2020 | 50,032,428 | 4,563,948 | 1,883,723 | 10,759,977 | 12,643,700 | 25.3 | 56.1 |
| 2021 | 52,283,887 | 4,817,357 | 1,917,021 | 11,187,982 | 13,105,003 | 25.1 | 57.7 |
| 2022 | 54,636,662 | 5,084,332 | 1,949,502 | 11,633,047 | 13,582,549 | 24.9 | 59.3 |
| 2023 | 57,095,312 | 5,365,580 | 1,981,023 | 12,095,854 | 14,076,877 | 24.7 | 61.0 |
| 2024 | 59,664,601 | 5,661,843 | 2,011,434 | 12,577,110 | 14,588,544 | 24.5 | 62.9 |
| 2025 | 62,349,508 | 5,973,906 | 2,040,570 | 13,077,552 | 15,118,122 | 24.2 | 64.9 |
| 2026 | 65,155,236 | 6,302,588 | 2,068,255 | 13,597,945 | 15,666,200 | 24.0 | 67.0 |
| 2027 | 68,087,221 | 6,648,755 | 2,094,300 | 14,139,087 | 16,233,387 | 23.8 | 69.2 |
| 2028 | 71,151,146 | 7,013,314 | 2,118,501 | 14,701,805 | 16,820,306 | 23.6 | 71.6 |
| 2029 | 74,352,948 | 7,397,220 | 2,140,639 | 15,087,638 | 17,228,277 | 23.2 | 74.2 |
| 2030 | 77,698,830 | 7,801,475 | 2,160,479 | 15,691,143 | 17,851,622 | 23.0 | 76.8 |
| 2031 | 81,195,278 | 8,227,134 | 2,177,770 | 16,318,789 | 18,496,559 | 22.8 | 79.7 |
| 2032 | 84,849,065 | 8,675,304 | 2,192,242 | 16,971,540 | 19,163,782 | 22.6 | 82.6 |
| 2033 | 88,667,273 | 9,147,150 | 2,203,606 | 17,650,402 | 19,854,008 | 22.4 | 85.8 |
| 2034 | 92,657,300 | 9,643,894 | 2,211,555 | 18,356,418 | 20,567,973 | 22.2 | 89.1 |
| 2035 | 96,826,879 | 10,166,822 | 2,215,756 | 19,090,675 | 21,306,431 | 22.0 | 92.5 |
| 2036 | 101,184,089 | 10,624,329 | 2,315,465 | 19,854,302 | 22,169,767 | 21.9 | 96.2 |
| 2037 | 105,737,373 | 11,102,424 | 2,419,661 | 0 | 2,419,661 | 2.3 | 100.0 |
| 2038 | 110,495,554 | 11,602,033 | 2,528,545 | 0 | 2,528,545 | 2.3 | 100.0 |
| 2039 | 115,467,854 | 12,124,125 | 2,642,330 | 0 | 2,642,330 | 2.3 | 100.0 |
| 2040 | 120,663,908 | 12,669,710 | 2,761,235 | 0 | 2,761,235 | 2.3 | 100.0 |
| 2041 | 126,093,784 | 13,239,847 | 2,885,490 | 0 | 2,885,490 | 2.3 | 100.0 |
| 2042 | 131,768,004 | 13,835,640 | 3,015,338 | 0 | 3,015,338 | 2.3 | 100.0 |
| 2043 | 137,697,564 | 14,458,244 | 3,151,028 | 0 | 3,151,028 | 2.3 | 100.0 |
| 2044 | 143,893,954 | 15,108,865 | 3,292,824 | 0 | 3,292,824 | 2.3 | 100.0 |
| 2045 | 150,369,182 | 15,788,764 | 3,441,001 | 0 | 3,441,001 | 2.3 | 100.0 |
| 2046 | 157,135,795 | 16,499,259 | 3,595,846 | 0 | 3,595,846 | 2.3 | 100.0 |

** Beginning of Fiscal Year